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## **21st Century School Finance System in Texas**

*Testimony before the House Public Education Committee on School Finance*

By Vance Ginn, Ph.D.

Chairman Huberty and Members of the Committee:

My name is Dr. Vance Ginn and I am an economist in the Center for Fiscal Policy at the Texas Public Policy Foundation, a non-profit, non-partisan free market think tank based here in Austin. I appreciate being invited to testify today on one of the most difficult fiscal challenges in Texas: school finance. As you investigate approaches of reforming the overly complicated system of school finance so that students, parents, teachers, and all Texans have the best opportunity to succeed, the Foundation would like to be helpful in that process.

Let me begin by noting that I was raised in a lower-income family of four with my father on disability from epilepsy and my mother working at daycares in the city of South Houston. Given some struggles I went through growing up, the public schools in our area were not always appropriate for me. In order to better meet my needs despite my family suffering financially, I had the privilege of attending private school from kindergarten to second grade, public school from third to sixth grades, and home school from seventh to 12th grades. It would have been helpful if there had been a school finance system that would have put less of a financial burden on my family while meeting my needs. Fortunately, it turned out well for me: I am a first-generation college graduate and I earned a doctoral degree in economics from Texas Tech University. However, too many Texans are not as fortunate. We can and must do better.

A simpler and efficient school finance system would be one that provides equitable student-centered funding paid for by taxes collected from a reformed sales tax.

### **Equitable Student-Centered Funding: Education Savings Accounts**

Last year, the Foundation released the paper [\*Texas School Finance: Basics and Reform\*](#), which attempts to bring clarity to the complex issue of school finance in Texas and outlines reforms to make the system student-centered and efficient. While we cover both the funding sources and distribution of funds in that paper, it is important to start with the distribution of funds when thinking about reforming school finance.

In the 2014-15 school year, Texas taxpayers spent a total of \$61 billion on public education, according to the Texas Education Agency's (TEA) 2014-15 Financial Actual Report. In the same school year, average daily student attendance at Texas' public schools was 4.8 million. As a result, Texans spent \$12,761 per student, or about \$255,000 for a classroom of 20 students. According to TEA's 2014-15 Texas Academic Performance Reports (TAPR), the average annual salary for teachers was \$50,715, resulting in only 20 percent of classroom expenditures going to fund teachers. This is just one example of resources that may not be currently allocated in the most efficient manner to help Texas students.

Another associated example of inefficiencies in public schools is the staffing surge in administrators and other staff compared with teachers. According to data from the National Center for Education Statistics for the period FY 1992 to FY 2014, the number of students has increased by 49 percent while the number

of staff has increased by 95 percent. Administrators and other staff employment, not including teachers, has increased by 174 percent compared with only a 53 percent increase in teachers. Clearly, there is a disparity between the number of students being taught in our public schools and the number of non-teaching staff. If public schools had increased the non-teaching staff at the same rate as its increase in students, economist Dr. Ben Scafidi notes that public schools could have saved \$7.4 billion annually. These savings could have been used to give every teacher a raise, reduce property taxes, and much more.

Public schooling is funded by an unnecessarily complex and inefficient system that is not student-centered. Texas' funding formulas have been cobbled together based on political dynamics, not by what works for students. As a result, the system is not efficient and simply just changing the formulas or putting more money in the basic allotment does not solve the underlying problem. The school finance system has a fundamental problem of not being equitable on a student basis, whereby prior efforts are designed around equity for schools rather than students. To resolve this fundamental problem, the focus should be shifted from equity for schools to equity for students. The Texas Supreme Court, which has dealt with school finance reform for the last 30 years, has repeatedly encouraged the Legislature to make structural reforms to the system, and did so even more forcefully in its 2016 opinion. It is time to end what the Supreme Court referred to as a Band-Aid upon Band-Aid approach. While there are a number of possible ways to do this, we recommend student-centered funding through universal education savings accounts (ESAs) that allow families to best meet a child's needs and add competition to a monopolized public school system.

ESAs provide an exciting opportunity for Texas children and the quality of life for future Texans. ESAs will allow parents to customize educational services for the specific needs of each of their children. Participating parents would agree to accept less than the cost to the state for public school education, and in doing so, would receive an account that could only be used to purchase educational services such as accredited private school tuition, online educational services, books, tutors, therapists, public school services, testing, etc. The account would be accessed either online or through a limited-use debit card and be subject to audit to avoid fraud and abuse. Funds not used in one year would be rolled over for use in future years and could be used for college tuition upon graduation from high school. This ability for parents to shop for better services would dramatically change and improve the delivery of all educational services.

Empirical evidence proves that when parents are given a choice to vote with their feet, public schools improve. Therefore, all Texans benefit whether they participate in the ESA program or not. Taxpayers will save money, quality teachers will finally be paid and treated as professionals. Education choice will be a win-win for everyone except those with a vested interest in the bureaucracy of the status quo.

### **Efficient Tax Collection Mechanism: Reformed Sales Tax**

Now that we have a student-centered funding mechanism in mind, how could we more efficiently fund it compared with our complex tax structure today? Although most Texans think in terms of local and state funding for schools separately, such is only true for facilities funding. Local school district property taxes collected for M&O purposes actually perform like a state property tax. In addition, although we think in terms of only rich districts participating in recapture, effectively all school districts are recapture districts because all M&O funds raised locally are allocated in accordance with state formulas. Moreover, Texas' local property tax burden ranks 14th highest nationally and weighs heavily on homeowners and businesses statewide; but research suggests that relief may be only a few modest reforms away.

To more efficiently collect taxes to fund the school finance system while reducing the burden on property owners, we recommend eliminating property taxes and funding the distribution system above with a reformed sales tax. We released a paper last year titled [\*The Freedom to Own Property: Reforming Texas' Local Property Tax\*](#) that outlined the problems with the property tax system and the economic and the

liberty-oriented reasons to replace it with a reformed sales tax. Of all the major taxes, a consumption tax (or sales tax) is the most preferable for at least three reasons: it is simple, transparent, and levied only at the end-user level, which provides some discretion over one's tax liability.

We provide a couple of scenarios of how the reformed sales tax would work to be revenue neutral with the current funding system. One of those is to abolish local property taxes and change the current 8.25 percent maximum state and local sales tax rate to a reformed sales tax rate of 11 percent with a broader base that includes all services that are taxed in at least one state and the sale of property. Based on this property tax-sales tax swap, economist Dr. Arthur Laffer estimated that this reform could contribute to personal income increasing by as much as \$63 billion and net new jobs increasing by 337,400 above the projections in the current tax system. Of course, this analysis includes eliminating all local property taxes (i.e., city, county, school district, and special districts), so just abolishing school district property taxes, which is the largest share of property taxes, would necessitate a lower reformed sales tax.

Perhaps the greatest incentive for property tax reform has nothing to do with tax relief, creating wealth, or adding new jobs; it has to do with liberty. So long as Texas' property tax remains in place, no person who lives in a home, operates a business, or has property of any kind, will ever truly own any of these. Right now, Texans effectively rent from the government, indefinitely. The evidence supports the case for replacing property taxes with a reformed sales tax; now the political will is needed to enact such a prosperity-generating reform.

### **Conclusion**

By considering sound solutions that provide equitable student-centered funding and a more efficient tax funding structure for the school finance system, Texas can best meet the needs of each student while generating more economic prosperity for all Texans. This fundamental reform of Texas' school finance system would finally provide an efficient, equitable, and simpler school finance system so that students have abundant opportunities to succeed. We understand that the process to make these reforms may not be simple, but students today and future generations deserve the difficult decisions and out-of-the-box thinking that you all have been tasked with. Given that we can get school finance right, many more students can have the same opportunities that I have been blessed to have.

Thank you for your time and efforts in this endeavor and I look forward to answering your questions.

**Vance Ginn, Ph.D.**, is an economist in the Center for Fiscal Policy at the Texas Public Policy Foundation. He is an expert on Texas' state budget, franchise tax, tax and expenditure limit, and other fiscal issues. Before joining the Foundation in September 2013, Ginn was a Koch Fellow, and taught at three universities and one community college in Texas. He has published peer-reviewed articles in academic journals, as well as commentaries in major media outlets across Texas and the nation.